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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Honorable John C. Stennis

United States Senate

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Questioned Highway Safety Program Costs In Mississippi

The Department of Transportation's Office of Inspector General conducted two audits of the Mississippi State Highway Safety Grant Program at the request of the National Highway Traffic Safety Administration. GAO believes that the State's response to questions raised during the audits was, on the whole, given a fair and equitable review by the Safety Administration. However, some actions of each party to the process may have complicated and prolonged the audit resolution process.

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SEPTEMBER 29, 1981

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-204804

The Honorable John C. Stennis
United States Senate

Dear Senator Stennis:

This report responds to your June 3, 1981, request concerning the resolution of questioned highway safety program costs in Mississippi. You asked us to look into whether the National Highway Traffic Safety Administration (NHTSA) had fairly and equitably reviewed the State's response to two Department of Transportation, Office of Inspector General (OIG) audit reports on the Mississippi Highway Safety Program. The reports were dated August 28, 1979, and May 16, 1980. In a subsequent discussion with your office, we agreed to restrict our work to examining a sample of those costs still in dispute.

In our opinion, NHTSA has, on the whole, fairly and equitably reviewed the responses of the Mississippi Governor's Highway Safety Program (GHSP) to the questions raised during the two audits. Our review disclosed, however, some actions of each party to the process (OIG, NHTSA, and the State) which have complicated and prolonged the audit resolution process.

SCOPE AND METHODOLOGY

As a result of the two OIG audits and subsequent negotiations between NHTSA and GHSP, NHTSA was questioning $755,954 of the State's highway safety grant program at the time of your request; the State was actively disputing about $490,035. For our review, we judgmentally selected 14 of the highest cost items from among the 34 items still being disputed. These represented $437,413, or about 89 percent, of the disputed costs. We reviewed the audit files of the regional Office of Inspector General and correspondence between NHTSA and the State of Mississippi regarding the resolution of these questioned costs. We also discussed each case with OIG, NHTSA, and the State to better understand why these costs were disallowed and the resolution process that has been followed.

BACKGROUND

The Highway Safety Act of 1966 established a nationwide highway safety program under which the States receive Federal funds to support their highway safety activities. The Governor of each State is responsible for the State's program, which is administered by a State highway safety agency.

Federal guidelines require each State to prepare an annual highway safety plan based upon clearly identified highway safety problems existing in that particular State. The State highway safety agency submits the plan to the responsible regional offices of NHTSA and the Federal Highway Administration (FHWA) for review and authorization to proceed. NHTSA is responsible for driver and vehicle programs while FHWA is responsible for highway design safety programs.

In June 1978, FHWA's External Audit Office (now part of OIG) issued a report on the operations of the Mississippi Governor's Highway Safety Program for the period April 1, 1976, to March 31, 1978. The auditors concluded that the internal controls exercised by GHSP did not assure that:

--The financial operations were properly conducted.

--The financial data and claims relating to the Federal-aid program were presented fairly.

--GHSP complied with applicable laws, regulations, and administrative requirements.

The auditors also questioned the eligibility for Federal participation in some of the costs charged to two safety projects and found that (1) GHSP did not follow its approved contracting procedures and (2) inadequate audits or no audits at all were made of highway safety project subgrantees. These deficiencies, particularly the inadequate audits of subgrantee activity, coupled with other management problems and allegations of fraud, prompted NHTSA to request OIG to make a comprehensive audit of GHSP activities for fiscal years 1975 through 1978.

OIG issued a report dated August 28, 1979, on its audit of GHSP activities for fiscal years 1975, 1976, 1977, and 1978. This was the first of the two reports you referred to in your request. OIG reported that the GHSP management system was incapable of assuring the integrity of the program. OIG reported that:

--Consultant contracts were not awarded in compliance with contracting and competitive bid requirements.

--Accounting and financial records were unacceptable.

--Personnel management practices needed improvement.

OIG audited program expenditures for the 4 years totaling $8.536 million, of which $6.966 million was determined to be the pro rata Federal share. OIG questioned $1.941 million (27.9 percent) of the Federal share of these costs. Another $523,000 expended in fiscal year 1978 was not audited because GHSP accounting records for that year were incomplete and not in a condition to be audited.

OIG issued a second audit report in May 1980 which covered fiscal year 1979 and the $523,000 not audited in fiscal year 1978. The Federal share of program expenditures totaled $1.513 million; about $358,000 (23.7 percent) was questioned. According to a NHTSA financial specialist, as a result of this second audit, some costs previously questioned by OIG were found acceptable, leaving total questioned costs at $2,133,844. Subsequent to the second audit, NHTSA further determined that GHSP had been overpaid by $66,439, bringing the total questioned costs and overpayments to $2,200,283.

OUR REVIEW OF ACTIONS TO RESOLVE AUDIT FINDINGS

At the time of your June 3, 1981, request, NHTSA had accepted as eligible all but about $756,000 of the $2.2 million in questioned costs and overpayments. A chronology of the reductions in questioned costs is set forth in appendix II to this report.

During the period July 7-9, 1981, representatives of GHSP and the Mississippi Department of Audit and Evaluation met with NHTSA officials to discuss the remaining disputed costs. We attended this meeting as observers and noted that each item of questioned costs was discussed. NHTSA explained its basis for questioning the costs and what documentation it considered necessary to allow Federal reimbursement for the costs incurred. GHSP provided some clarification of its earlier submissions and aired its concerns about the effort required to provide the documentation NHTSA requested. As a direct result of this meeting, NHTSA accepted another $47,478 of questioned costs and

identified about $55,956 in questioned contract costs which could be accepted based on a determination of their legality by the State attorney general and submission of contract documents to NHTSA.

We reviewed 14 of the items of questioned cost, totaling $437,413, that were in dispute at the time of your request. These 14 items are discussed in detail in appendix I to this report.

NHTSA has provided technical assistance to GHSP to help solve its management problems. In 1979 and 1980, NHTSA detailed one of its financial specialists to Mississippi to work closely with GHSP in reorganizing its operations. This financial specialist aided GHSP in restructuring its system of financial and grant management controls over highway safety grant funds. NHTSA also advised GHSP of the need to improve its personnel management system and to develop a policy and procedures manual. A NHTSA financial specialist told us that GHSP has made great strides in improving its operations since OIG's comprehensive audits.

In our opinion, the process used by NHTSA to resolve the questioned costs was on the whole fair and equitable. However, it was also apparent from our review that the resolution of these questioned costs was complicated and prolonged because:

--NHTSA, OIG, and GHSP did not reach an early and clear understanding of the nature of the audit exceptions and the actions needed to resolve them.

--GHSP did not assign a high priority to responding to the audit findings.

Lack of clear communication

OIG issued the first of its two audit reports on August 28, 1979. NHTSA, in an attempt to resolve the audit findings before a January 1980 change in State administration, forwarded a copy of the audit report to GHSP on August 30, 1979. In its transmittal of the audit report, NHTSA did not identify its specific concerns or request any specific action or documentation from GHSP. On the other hand, GHSP did not request any clarification. Neither NHTSA nor GHSP solicited a meeting to discuss the audit report and establish a mutual understanding of what was needed to resolve the audit exceptions. It was not until 7 months later in March 1980, when GHSP and NHTSA met to discuss the audit report, that an attempt to establish

a common understanding began. In the absence of this understanding, it is not surprising that GHSP's first attempt to resolve the audit exceptions in October 1979 did not succeed.

In addition to NHTSA and GHSP not establishing an early common framework for resolving the audit, NHTSA and OIG had not reached a mutual understanding of the findings.

The audit report was vague and did not include a complete explanation of the conditions that caused OIG to question program costs. For example, OIG questioned about $140,000 involving 10 contracts because GHSP had not followed its approved procedures for contracting for consultants and services. OIG, however, did not identify the specific procedural violations that led to this audit exception. NHTSA did not obtain this information until after it had reviewed GHSP's October 1979 response to the audit. Accordingly, GHSP in its October response stated that it was not able to identify which contracts the report referred to. However, it did submit contracts and bid documents for any identified contracts that were questioned for any reason. A NHTSA financial specialist told us that the OIG report did not identify the specific contracts in question; therefore, GHSP's chance response was irrelevant, and resolution of the costs was impossible at that time.

Following their March 1980 meeting, NHTSA provided GHSP with a list of the 10 contracts but still did not disclose the specific procedural violations or what documentation GHSP needed to respond adequately.

After examining the audit exceptions, NHTSA discovered that some of the 10 contracts the OIG audit questioned for failing to follow contracting procedures were unallowable for more significant reasons. For example, part of the cost of a Governor's hotline contract (see app. I, p. 11) was allocated to GHSP. OIG questioned the expense because GHSP had not followed contracting procedures in executing the contract for these services. GHSP's May 1981 response to this audit exception addressed the contract procedures used and provided information on the services received by GHSP. In its review, NHTSA came to the conclusion that the real issue on this contract should have been that a Governor's hotline contract is in the nature of a general expense of the Governor's office and as such is specifically unallowable for Federal reimbursement under Office of Management and Budget regulations.

GHSP has not given audit resolution a high priority

GHSP has undergone a major reorganization, has had three different directors since the first audit began in early 1979, and has reduced its staff from 27 to 13 positions. As a result, GHSP requested assistance in preparing audit responses from the Mississippi Department of Audit and Evaluation, which in turn experienced staffing problems. Consequently, little continuing effort has been made to respond to the OIG audits. In fact, it was not until about April 1981 that anyone was assigned to prepare audit responses as their primary duty. Perhaps as a result of not giving these audits a high priority, GHSP's responses have been infrequent, have not dealt with all audit exceptions, and have not been adequately documented.

GHSP's initial audit response to OIG's first report dated August 28, 1979, was made in October 1979. The NHTSA Regional Administrator told us that NHTSA orally notified GHSP that its first response was inadequate. It was not until August 1980 (after the State administration changed in January) that GHSP filed a second response to the audit exceptions. Because of other work, this submission did not respond to all the audit exceptions. In May 1981, about 9 months later, GHSP made another attempt to respond to the audit exceptions, shortly before NHTSA began to make deductions from the State's claims for reimbursement to recover the questioned costs.

A grantor should have documented evidence of the grantee's performance. Many grantees do not understand this and waste considerable time and money trying to persuade the grantor to accept oral statements from officials and others. Thus, some of GHSP's responses to NHTSA were undocumented. For example, OIG questioned whether field representatives employed to provide liaison between GHSP and local officials were performing the functions outlined in their position descriptions. GHSP's initial response to this audit exception was simply a statement from GHSP officials that the field representatives were carrying out their assigned functions. GHSP did not provide any documented evidence of work accomplished by these field representatives. In another instance, NHTSA determined that GHSP had been overpaid by $66,439 on some projects. GHSP stated that the auditors overlooked relevant project costs, but it had documented only about $3,087 of the $66,439 determined to be overpaid.

CONCLUSIONS

On the whole, NHTSA has fairly and equitably reviewed GHSP's responses to the two OIG audits. However, the resolution process was prolonged because NHTSA, OIG, and GHSP did not reach a mutual understanding of the audit findings and the actions to resolve them, and because GHSP did not assign high priority to responding to the audit findings. Also, we noted that NHTSA has provided technical assistance to GHSP to help it improve its financial management.

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As requested by your office, we have not obtained formal comments from NHTSA, OIG, or GHSP on the report. We have, however, informally discussed these matters with NHTSA and OIG regional officials and with State officials, who generally agreed with our findings.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time we will send copies to the Secretary of Transportation and the Director, Office of Management and Budget. We will also make copies available to the House Committee on Public Works and Transportation, the Senate Committee on Environment and Public Works, and other congressional committees and interested parties.

Sincerely yours,

Henry Eschwege

Henry Eschwege
Director

ITEMS OF QUESTIONED COSTS REVIEWED BY GAO

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ITEMS 1 AND 2:
FIELD REPRESENTATIVES
QUESTIONED COSTS - $215,053

Under its planning and administrative grant, GHSP employed nine field representatives to provide liaison between GHSP and local officials. OIG questioned $215,053 in salaries, fringe benefits, and travel expenses for the field representatives in fiscal years 1978 and 1979 because in its judgment the field representatives did not function in accordance with their position descriptions. Subsequently, NHTSA accepted $37,577 of these questioned costs because OIG had incorrectly classified some individuals as field representatives. NHTSA continues to question the remaining $177,476 for the reasons cited by OIG, and a mutually agreeable resolution of their costs does not seem imminent.

The nine NHTSA-funded field representatives were to work in specific geographic areas to provide continuing contact with local agencies and individuals who are involved in highway safety-related activities. Their intended duties included, among others:

--Maintaining liaison with local governments to apprise them of GHSP's role in State highway safety.

--Helping to carry out the basic monitoring and administrative evaluations of ongoing highway safety projects.

--Maintaining liaison with law enforcement and judiciary officials to promote GHSP and to give assistance whenever possible.

OIG concluded that the field representatives were not fulfilling their intended functions and questioned their entire salaries, fringe benefits, and travel costs for fiscal years 1978 and 1979.

NHTSA's Regional Administrator maintains that for these questioned costs to be allowed, GHSP must submit documentation to show what the field representatives accomplished relative to their position description. Acceptable documentation would include grant applications and grant monitoring reports. NHTSA has determined that trip reports filed with travel vouchers that show persons contacted and topics discussed are not acceptable documentation because of OIG's finding that 40 percent of the persons purportedly contacted could not remember being visited by a GHSP representative.

GHSP has not yet submitted any documentation of the results of the field representatives' activities. GHSP has recently conducted its own survey of contacts reported by field representatives during the audit period and submitted the results of this survey to NHTSA as documentation that a higher percentage of field representatives' contacts can be verified.

NHTSA's Regional Administrator told us that GHSP has not adequately responded to the issue of whether the field representatives functioned as intended. He conceded that the field representatives did perform some work directly related to highway safety and stated that NHTSA will consider partial acceptance of the questioned costs if GHSP will propose a partial settlement based on the amount of documentation it can provide. However, NHTSA has not provided GHSP with any guidance on how much documentation would be necessary. The Chief Investigator, State Department of Audit and Evaluation, maintains that the State has expended as much of its resources responding to this audit exception as is reasonable. He believes that NHTSA has access to OIG audit files and GHSP's responses and should be able to make a decision on the partial acceptance of questioned costs without GHSP having to submit additional documentation and propose a specific settlement.

NHTSA and GHSP are currently at an impasse, and it appears that they will not be able to mutually resolve the field representatives' questioned costs. If GHSP provides no additional support, NHTSA will continue withholding funds from GHSP until the questioned costs are recovered.

ITEM 3:
55-MPH CAMPAIGN
QUESTIONED COSTS - $44,800

GHSP awarded a contract to conduct research analysis in Mississippi and other States on the 55-mph campaign and to design campaign material for GHSP to present at a regional meeting of highway officials. NHTSA is questioning this contract's total cost because it has indications that GHSP awarded it on a sole-source basis and obtained bids afterwards. NHTSA alleges that GHSP had the bids backdated to cover up the sole-source procurement.

Although the final resolution of these questioned costs may require legal action because of allegations of fraud, NHTSA and OIG have not provided GHSP with sufficient and adequate information to respond properly to the audit findings and NHTSA's allegation.

Audit finding was vague

The OIG audit finding was vague in that it did not explain what contracting procedures were violated by the 55-mph campaign contract and did not specify this project contract in its allegation of backdated bids. This lack of specificity made it difficult, if not impossible, for GHSP to adequately address the audit report regarding this project.

The OIG audit report questioned the total project cost of $44,800 based on the finding that

> "GHSP did not comply with bidding and selecting procedures in the employment of consultants. The reason for this was that GHSP officials ignored their approved Procedural Guide for employment of consultants."

However, the audit report did not elaborate on what contracting procedures the 55-mph campaign contract had violated. Later in the audit report, the following statement appeared (which, according to the OIG auditor-in-charge, refers to this project):

> "* * * bids were obtained on one contract after the contract was awarded and GHSP officials requested these bids be backdated."

However, the statement did not identify the 55-mph campaign as the contract being referred to.

Consequently, in October 1979, Mississippi's response to the audit report regarding this project was vague and did not address the statement concerning backdated bids:

> "Attached are copies of the bids from two other advertising firms regarding the 55 MPH campaign. Also [attached] is a copy of the final contract with the firm selected. This would indicate that we followed all steps required for contractual services. Our files are quite extensive on this project. If anything else is needed, we will be happy to supply the information."

In our opinion, the audit report did not provide Mississippi with sufficient and adequate information to respond properly to the audit finding.

Issue upon which costs were questioned has changed

NHTSA's original reasons for questioning the 55-mph campaign costs were that contracting procedures had not been followed and that bids had been backdated. These issues changed twice between the issuance of the audit report and NHTSA's last meeting with Mississippi officials.

After Mississippi's first response to the audit report, NHTSA cited the following reason, in a meeting held in March 1980, for continuing to question the project cost.

> "The bids provided do indicate that more than one bid was received but do not confirm that proper contracting procedures have been followed. No documentation has been submitted as to advertising all bids received, selection criteria, etc."

According to the NHTSA financial specialist, in the spring of 1980 NHTSA told GHSP that it had evidence of bid rigging but would not supply the supporting evidence. GHSP said that it had not addressed bid rigging in the later responses because it needed to review the evidence supporting this allegation.

Mississippi provided two more responses. The first, in August 1980, stated:

> "Attached are the quotations received from three firms to provide professional and technical services in conjunction with the State's '55 MPH Campaign'. Three bids were received as follows:
>
> $50,450
> 53,200
> 40,000
>
> The firm submitting the lowest quotation was chosen."

In January 1981, NHTSA disallowed the project costs without written explanation.

The second response, submitted in May 1981, discussed the quality of the work performed under the contract, which NHTSA agreed was outstanding, and then briefly stated that GHSP was attaching copies of the bids received for the project and that the contract had been awarded to the lowest bidder.

In March and July 1981 meetings, NHTSA provided Mississippi with oral explanations of why the project costs were disallowed. According to NHTSA these comments were made in July 1981:

> "OIG investigative files contain evidence of conspiracy. Bids were falsified. In addition, contractor retained ownership of the product which has not been used for highway safety."

Although the issue of product ownership has since been dropped, these reasons represented a change from the audit report citation and NHTSA's earlier comments on why the costs were questioned. In our opinion, this change indicates NHTSA's lack of effort to provide GHSP with enough adequate information to respond properly to the issues of the case.

Document indicating fraud withheld from GHSP

The one document on which NHTSA bases its claim of indications of fraud and falsified bids has been withheld from the GHSP officials responsible for responding to the audit report. This document is a handwritten, unsigned memorandum, purportedly written by one of the owners of the firm awarded the contract,

explaining how the contract was awarded and bids falsified. The document was written for OIG investigators and is currently in the possession of NHTSA officials. A NHTSA financial specialist told us that the U.S. attorney did not pursue this case because a GHSP official involved in the case aided in the prosecution of another case.

In a March 1981 meeting, according to the GHSP Director, NHTSA told GHSP that this memorandum was the basis for the allegation of fraud in this case. GHSP asked to review this documentation but was denied access to it. According to the Director, the reason the May 1981 response failed to address the question of fraud was that GHSP was not able to review the documentation.

In September, a NHTSA financial specialist told us that NHTSA had referred GHSP to the U.S. attorney in Jackson, Mississippi, for a copy of the memorandum.

In our opinion, NHTSA and OIG did not provide GHSP with adequate information to respond properly to the audit finding, which involves a very sensitive situation.

ITEM 4:
STATE FIRE ACADEMY
QUESTIONED COSTS - $30,254

This project was for the purchase of a fully equipped mobile classroom to be used statewide to teach firefighting techniques and rescue and recovery. According to fire academy officials and as identified in the grants, the equipment in the mobile classroom and the training were necessary to train firemen in the areas of rescue and hazardous materials. NHTSA is disallowing these project costs based on the OIG finding that the mobile classroom and its attendant equipment do not relate to highway safety.

The August 1979 OIG audit report stated that items comprising 66 percent of the project cost did not relate to highway safety. Mississippi's first response in October 1979 did not address the audit citation but stated that the report contained many totally false statements and much opinion. According to a NHTSA financial specialist, NHSTA told Mississippi in March 1980 that documented highway safety-related instruction in the mobile classroom would be allowable, but Mississippi did not respond again until May 1981 due to time constraints and higher priority work. In May 1981, Mississippi provided indications that some highway safety-related instruction was given in the mobile classroom. This documentation contained some evidence of training seminars but did not identify the percentage of total training related to highway safety. After evaluating this documentation, NHTSA told GHSP in July 1981 that data had not been provided to show the highway safety-related instruction given.

NHTSA said it would consider highway safety-related instruction costs reimbursable if adequate documentation were provided. Specifically, NHTSA told Mississippi that to justify these project costs, GHSP would have to provide a list of all courses taught in the mobile classroom during the grant period and to identify those classes that related to highway safety. GHSP would then have to compute the percentage applicable to highway safety. If this calculation showed that the primary purpose of the mobile classroom was highway safety, NHTSA would allow 100 percent of the project costs. If highway safety was not the primary purpose but some highway safety-related instruction was given, NHTSA would allow that percentage of the project costs.

However, according to the Chief Investigator, State Department of Audit and Evaluation, GHSP does not plan any further submissions since it has no further documentation to submit. He said that NHTSA must determine the percentage of project costs related to highway safety and allow that percentage because it has all the information available. He does not believe NHTSA has been unfair but believes that it is responsible for determining how much of the project is allowable.

If GHSP submits no further documentary evidence to support these project costs, NHTSA will continue to disallow all costs, even though it has evidence that some highway safety-related training took place, because it does not know the ratio of highway safety use to other use.

ITEMS 5 AND 6:
ALLAN TORRENCE AND WARNER SNELL
QUESTIONED COSTS - $27,127

These two contracts were for personal services rendered to GHSP in fiscal year 1977. The OIG audit report issued in August 1979 charged that these contracts were awarded without following proper contracting procedures. In May 1981, after attempts to determine the auditors' specific problems with these consultant contracts, GHSP successfully justified the procedures used to award these contracts. According to the NHTSA financial specialist, the underlying reason for questioning these costs was not contracting procedures but a State government memorandum which stated that contract employees could not legally be used to expand an agency's staff. The financial specialist stated that the OIG report did not provide enough information on these contracts to make this point clear.

Consequently, in July 1981, NHTSA abandoned the issue of contracting procedures in these cases and instead disallowed these costs based on an apparent violation of State policy, issued in August 1976, which prohibited the State from using contract employees beginning in fiscal year 1977. The NHTSA Regional Administrator further stated that GHSP must obtain a written statement from the State attorney general that these 1977 consultant contracts were legal documents in spite of the

memoranda written in 1976 which indicated that these contracts may be illegal. In addition, GHSP must provide NHTSA with a copy of Warner Snell's 1977 contract.

According to the GHSP Director, GHSP accepted this requirement and is currently in the process of obtaining the opinion of the State attorney general concerning the legality of all 1977 consultant contracts.

It appears that NHTSA has fairly reviewed these questioned costs and its finding to accept or disallow the costs based on the legality and validity of the executed contracts is fair and equitable.

ITEM 7:
GRADY GILMORE CONTRACT
COSTS QUESTIONED - $8,000

This contract was for professional consultant services in connection with GHSP's alcohol countermeasures project.

OIG questioned the State's procurement procedures in that GHSP did not comply with bidding and selection procedures in the employment of consultants. The State contracted for Mr. Gilmore's services in the State's alcohol countermeasures project. Services to be performed included class instruction for law enforcement personnel in alcohol countermeasures as well as monthly reporting of activities performed. OIG found no evidence to show the contractor performed these services. OIG cited the following deficiencies in GHSP's awarding of this contract:

--The State made no assessment of the need for the services contracted and already had an equally qualified staff who could perform the same functions.

--The salary paid the consultant, $1,600 per month, seemed excessive.

--The contractor had no experience in alcohol countermeasures.

NHTSA found that OIG did not have adequate support for citing these deficiencies. Since GHSP's response adequately supported that the contract services were provided, NHTSA's remaining question involves obtaining copies of all valid contracts.

As with the Torrence and Snell contracts discussed on page 7, NHTSA's acceptance of these costs is also contingent on a favorable determination by the Mississippi attorney general that personal services contracts of this type were permitted by Mississippi law.

It appears that NHTSA has fairly reviewed these questioned costs and its finding to accept or disallow the costs based on

the legality and validity of the executed contract is fair and equitable.

ITEM 8:
LOWNDES COUNTY SHERIFF'S DEPARTMENT
COSTS QUESTIONED - $9,724

The Congress provided increased funding to eliminate hazards in certain "high-payoff" areas--those areas having high potential for reducing accidents, such as alcohol countermeasure programs, the 55-mph speed limit compliance program, and selective traffic enforcement programs. The project involved the purchase of two fully equipped traffic control vehicles to be used for selective traffic enforcement activities. OIG reported that the grant agreement had been violated because it could not be determined that the vehicle and equipment were used primarily for selective traffic enforcement.

The State responded on two occasions, initially in October 1979 and again in May 1981. Its initial response provided a statement from the Lowndes County sheriff explaining that the vehicles were being used basically for selective traffic enforcement as well as other law enforcement activities to serve the needs of the county. GHSP did not provide documented support for this statement. The second response reiterated the previous statement but also included general statistics on the overall effectiveness of the Lowndes County Sheriff's Department in addressing its overall objective. The responses did not, however, provide data on the effectiveness or specific use of the vehicles in selective traffic enforcement as required by the grant.

NHTSA has disallowed the costs pending receipt of data from the State showing the vehicles were used for selective enforcement in high-payoff areas pursuant to the grant agreement. We believe that NHTSA is justified in requiring the grantee to document that the equipment was used in accordance with the grant agreement.

ITEM 9:
CITY OF BRANDON
QUESTIONED COSTS - $14,645

This project was for a grant to provide four police officers and a radar unit to a local community for establishing a traffic control division. The city of Brandon requested the grant after it annexed a residential area which added 52 miles of streets to its existing 40 miles. NHTSA is disallowing the total Federal share of the project because the Brandon police department did not fulfill the terms of the grant agreement and is therefore in violation of Office of Management and Budget (OMB) Circular A-87, which establishes principles and standards for determining costs applicable to grants with State and local governments.

The audit report questioned these costs for four police officers and a radar unit because:

> "The officers employed did not function as a traffic control unit. They were incorporated into the police department and used for routine patrol. This use included traffic accident investigation, traffic surveillance, and traffic direction at school crossings and intersections. However, traffic safety was only one of the duties performed by the officers. They were, in effect, a necessary expansion to the communities' [sic] police department to provide protection to the annexed area."

Although GHSP's first response in October 1979 claimed that such a traffic control division had been established, the second response in August 1980 admitted that it had not been established.

The grant agreement, which specifically stated that a traffic control division would be established by the city of Brandon, was not fulfilled. OMB Circular A-87 states:

> "The grantee or contractor assumes the responsibility for seeing that federally-assisted program funds have been expended and accounted for consistent with underlying agreements and program objectives."

The Chief Investigator, State Department of Audit and Evaluation, advised us that the State does not have a strong defense of this project. Based on the evidence the State has, the requirements of the grant agreement, and OMB Circular A-87, he tends to agree with NHTSA's disallowance of these costs. He told us GHSP does not plan to attempt to further justify these costs. We believe that NHTSA has dealt fairly and equitably with the State.

ITEM 10:
BOLIVAR COUNTY
QUESTIONED COSTS - $5,092

This project involved Bolivar County's purchase of an ambulance for a contractor to provide emergency ambulance service to county residents. OIG questioned the ambulance costs of $6,789 because it determined that the ambulance was not being used for purposes identified in the grant. The vehicle had been observed in a partially dismantled state.

The State's initial response in October 1979 was a statement explaining that the vehicle had been used for program purposes but no documents were provided to support its claim. In March 1981, NHTSA advised GHSP that this response was not adequate. In May 1981, GHSP again responded. This time GHSP reported that its investigation showed that the original ambulance

acquired with this grant had been used for grant program purposes for at least 1 year. The ambulance was then taken out of service because its mechanical problems made continued operation uneconomical. GHSP contends that a replacement ambulance has been obtained using local funding and that the ambulance service intended by this grant has continued. GHSP did not provide documentation to support this replacement.

NHTSA has accepted part of the cost of this project based on the ambulance service GHSP has verified so far. NHTSA and GHSP agreed that the $5,091.90 cost still in question for this project can be allowed if the State provides documented support that the ambulance was replaced. The GHSP Director told us that the State intends to provide this support.

We believe that NHTSA has fairly reviewed these questioned costs and its finding to accept or disallow the costs based on documented support is fair and equitable.

ITEM 11:
MOSS POINT POLICE DEPARTMENT
QUESTIONED COSTS - $8,279

This project involved expenditures of Federal funds for selective traffic enforcement in the city of Moss Point. OIG questioned the costs because the subgrantee did not have a copy of the grant agreement at the time of the audit. OIG contended that the absence of a grant agreement prevented it from evaluating whether the documented costs were incurred within the grant period.

The State responded twice to the OIG finding, first in October 1979 and again in May 1981. The State first provided an incomplete copy of the grant agreement, but it subsequently provided a complete grant agreement.

NHTSA then requested a copy of supporting invoices to validate vehicle purchases. GHSP, however, contends that NHTSA has been inconsistent in its requests for information on this project. A NHTSA financial specialist said that GHSP had submitted a worksheet itemizing grant purchases but this was not acceptable as proof of purchases. However, the OIG auditor-in-charge told us that all project costs were properly supported and considered eligible for Federal reimbursement except that OIG could not determine without a grant agreement that the costs were incurred solely within the grant period. In September 1981, a NHTSA financial specialist told us that GHSP had submitted the invoices and NHTSA was evaluating them.

ITEMS 12 AND 13:
GOVERNOR'S HOTLINE CONTRACT
QUESTIONED COSTS - $8,000

This contract established toll-free telephone service to permit the citizens of Mississippi to channel inquiries,

complaints, and opinions to State government. The OIG audit report issued in August 1979 questioned these costs on the basis that proper procurement practices had not been followed. GHSP contracted for the hotline service at a monthly rate of $500 per month; however, the service was of little benefit to GHSP. OIG's analysis of hotline reports for a 16-month period, December 1974 through March 1976, showed that only one referral had been made to GHSP.

NHTSA has subsequently determined that the expenditure violated OMB Circular A-87. The hotline was established to address the needs of the Governor's Office and benefited agencies statewide. The criteria in Circular A-87 for determining costs applicable to grant programs disallow, as program costs, general expenses required to carry out the State's overall responsibilities.

A NHTSA financial specialist told us that GHSP was informed in a March 1981 meeting that the Governor's hotline violated OMB Circular A-87. However, GHSP officials in their May 1981 response addressed OIG's original procedural concerns. A State Department of Audit and Evaluation auditor told us that he did not recall a violation of Circular A-87 being discussed at the March meeting. He commented that NHTSA's determination was open to interpretation.

We believe that NHTSA's current position that the Governor's hotline is a general expense of the Governor's Office and thus unallowable is a reasonable interpretation of the facts. NHTSA must clearly inform GHSP of the basis for the disallowance.

ITEM 14:
OVERPAYMENTS - $66,439

Some time after OIG issued its two comprehensive audit reports on GHSP activities, NHTSA determined from its records that 51 projects had been overpaid by a total of $66,439. NHTSA first requested repayment on January 7, 1981.

Efforts by NHTSA and the State to resolve the overpayments have been minimal. The State submitted responses in May 1981 on only 3 of the 51 projects involved--representing about 6 percent of the total overpayment amount.

A NHTSA financial specialist told us he had looked at the responses submitted by the State and noted that additional support for costs was provided. He advised us that he now plans to ask OIG to evaluate the documentation provided by GHSP. He told us that NHTSA plans to resolve these overpayments in accordance with OIG's decisions. GHSP's current response to three projects will be evaluated by NHTSA/OIG. We believe GHSP should make an effort to document additional significant program costs for the other 48 projects.

APPENDIX II

CHRONOLOGY OF RESOLUTION OF QUESTIONED COSTS

Date	Event	Balance of costs questioned
August 1979	First audit report issued.	$1,941,000.00
October 1979	GHSP responds to report. NHTSA subsequently determines response inadequate to resolve any costs.	1,941,000.00
March 1980	NHTSA and GHSP meet to clarify findings and reach understanding of documentation needed.	
May 1980	Second audit report issued increasing questioned costs to $2,133,844.21.	2,133,844.21
August 1980	GHSP responds to audit findings.	
January 1981	NHTSA notifies GHSP that $1,344,232.76 has been accepted.	789,611.45
	NHTSA determines that GHSP has been overpaid $66,439.46, bringing total overpayments and questioned costs to $856,050.91. NHTSA notifies GHSP it will begin deducting 25 percent of each reimbursement claim submitted by GHSP after March 7, 1981.	856,050.91
February 1981	GHSP and NHTSA meet to discuss options to planned deductions. NHTSA subsequently extends date for beginning deduction to July 1, 1981.	
May 1981	GHSP submits additional documentation to justify remaining costs.	

APPENDIX II

Date	Event	Balance of costs questioned
June 1981	NHTSA notifies GHSP that $100,096.22 of questioned costs is acceptable.	a/$ 755,954.69
July 1981	NHTSA and GHSP meet to discuss remaining costs. NHTSA accepts $47,477.80.	708,476.89
August 1981	NHTSA notifies GHSP that NHTSA has withheld $23,615.48 as the first deduction from GHSP claims.	684,861.41
September 1981	The Governor requests the NHTSA Administrator to decrease the 25-percent deduction on GHSP claims to 10 percent retroactive to July 1, 1981. The State believes it cannot meet its commitments to program grantees with the 25-percent deduction but believes it could meet the commitments at the 10-percent level.	684,861.41

a/GHSP also indicated that it intended to recover $182,142.00 from its subgrantees. GHSP did not respond to $83,777.72 of the questioned costs. It neither conceded nor disputed these costs. For the purposes of our review, we considered the total of these amounts to be resolved, thus leaving a balance of $490,034.97 in dispute when we began our review.

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